



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James I. Gracik, CPA  
Donald W. Drannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Bertulotti

TAWAS AREA SCHOOLS  
OSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2008

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## AUDITORS' REPORT

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Donald W. Brannan, CPA  
Kyle E. Trayer, CPA

Herman A. Bertuleit

September 26, 2008

Independent Auditors' Report

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008, included in the Single Audit Reports issued under separate cover, on our consideration of Tawas Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tawas Area Schools' basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*

Offices:  
East Tawas  
West Branch

325 Newman St., P.O. Box 592, East Tawas, MI 48730  
www.stephensongracik.com  
989-362-4491 • 989-362-8351 Fax

Members  
AICPA  
MACPA



# Tawas Area Schools

245 West M-55 • Tawas City, MI 48763

Donald S. Vernon, Superintendent

Telephone (989) 984-2250 • Fax (989) 984-2253



As management of the Tawas Area Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Sinking Fund, Debt Retirement Fund, Food Service Fund and Athletic Fund.

## FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The District realized relative stability in all governmental activities for the 2007/2008 school year. Fortunately, the District did not experience the predicted loss in enrollment of students causing the student count to remain fairly constant. This coupled with the modest foundation increase from the State and the cost containment strategies implemented by Administration has allowed for an increase in the District's year end Fund Balance. Future revenue predictions remain unreliable due to Michigan's ongoing difficulty to generate accurate K-12 revenue forecasts. The state's continued high unemployment rate and slowing economy along with escalating costs does not promote financial confidence for the 2008/2009 school year. Our ability to reach our financial goals and to maintain an adequate fund balance will present an ongoing challenge.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$8,689,718 (net assets). Of this amount, \$1,757,324 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets increased by \$1,052,813. This represents increases in ongoing revenues which exceeded increases in ongoing expenditures.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,497,294, an increase of \$425,009 in comparison with the prior year. Of this amount, \$2,018,224 (unreserved fund balance) is available for spending at the District's discretion.

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, Sinking Fund, Debt Retirement Fund, Food Service Fund and Athletic Fund) was \$2,497,294 or 20% of the total expenditures of these operating funds.

## USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Tawas Area Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008

Government -Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the Tawas Area School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, and food services.

The government-wide financial statements can be found in the Statement of Net Assets and the Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Sinking Fund which are both considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budgets.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008

Governmental Funds (Continued)

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found in the Statement of Fiduciary Assets and Liabilities .

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are presented in Notes to Financial Statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in the Combining Balance Sheet – Other Governmental Funds and the Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Other Governmental Funds.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The School District's net assets were \$8,689,718 at June 30, 2008. Of this amount, \$1,757,324 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the School District's governmental activities.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 1  
NET ASSETS  
Governmental  
Activities

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current Assets	\$ 3,402,043	\$ 3,014,443
Noncurrent Assets:		
Bond Issuance Costs - Net	32,786	95,342
Capital Assets - Net	<u>9,840,211</u>	<u>9,641,213</u>
Total Assets	<u>13,275,040</u>	<u>12,750,998</u>
Current Liabilities	924,007	962,083
Noncurrent Liabilities	<u>3,661,315</u>	<u>4,152,010</u>
Total Liabilities	<u>4,585,322</u>	<u>5,114,093</u>
<u>Net Assets</u>		
Invested in Capital Assets – Net of Related Debt	6,364,124	5,731,630
Restricted	568,270	602,993
Unrestricted	<u>1,757,324</u>	<u>1,302,282</u>
Total Net Assets	<u>\$ 8,689,718</u>	<u>\$ 7,636,905</u>

The \$1,757,324 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example); we would have \$1,757,324 left.

TABLE 2  
CHANGES IN NET ASSETS

	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Revenue:		
Program Revenue:		
Charges for Services	\$ 443,300	\$ 470,779
Operating Grants and Contributions	1,417,590	1,464,271
Capital Grants and Contributions	24,596	0
General Revenue:		
Current Property Taxes	5,211,165	5,037,634
State School Aid – Unrestricted	5,874,749	5,971,310
Investment Earnings	121,921	121,490
Miscellaneous	10,128	13,144
Gain (Loss) on Sale of Capital Assets	<u>(11,442)</u>	<u>3,602</u>
Total Revenue	<u>13,092,007</u>	<u>13,082,230</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2  
CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Functions/Program Expenses:		
Instruction	\$ 7,148,871	\$ 7,260,296
Support Services	3,977,363	4,086,568
Community Services	15,329	2,819
Food Services	483,843	512,776
Athletics	272,738	305,951
Interest on Long-Term Debt	<u>141,050</u>	<u>152,073</u>
Total Functions/Program Expenses	<u>12,039,194</u>	<u>12,320,483</u>
Change in Net Assets	1,052,813	761,747
Beginning Net Assets (Restated)	<u>7,636,905</u>	<u>6,875,158</u>
Ending Net Assets	<u>\$ 8,689,718</u>	<u>\$ 7,636,905</u>

Governmental activities increased the District's net assets by \$1,052,813.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$12,039,194. However, the amount that our taxpayers ultimately financed for these activities through the School District was only \$5,211,165 because some of the cost was paid by those who benefited from the programs (\$443,300), by other governments and organizations who subsidized certain programs with grants and contributions (\$1,442,186), by unrestricted state school aid (\$5,874,749), and by miscellaneous sources (\$120,607).

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The budgeted funds are the General Fund, the School Lunch Fund and the Athletics Fund.

During the year ended June 30, 2008, the District amended the budgets of these governmental funds a couple of times, none significantly.

General Fund

The general fund actual revenue was \$11,659,764. The amount is above the original budget estimates of \$11,406,000 and below the final amended budget of \$11,671,064. The variance between the actual revenues, the original budget and the final budget was the result of changes in revenues from various sources.

The actual expenditures of the general fund were \$11,013,695, which is below the original budget estimates of \$11,041,935 and above the final amended budget of \$11,008,292.

The General Fund had total revenues of \$11,659,764 and total expenditures of \$11,013,695 with an ending fund balance of \$1,929,024.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008

TOTAL REVENUES

The total revenues of the School District were \$13,092,007. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, operating grants and contributions and capital grants and contributions accounted for \$1,885,486 or 14% of total revenues of \$13,092,007.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$12,681,998. The governmental funds had a net gain in fund balance of \$425,009. The ending fund balance for all governmental funds was \$2,497,294 which represents 20% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets**

At the end of fiscal year 2008, the District had \$18,037,322 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, \$8,197,111 in depreciation has been taken over the years. We currently have a net book value of \$9,840,211. Total additions for the year were \$667,254.

**Long-Term Debt**

At June 30, 2008, the District had \$3,540,000 in bonds outstanding which represent general obligation bonds of the District.

State statutes limit the amount of general obligation debt that a School District may issue. The current debt limitation for the School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Notes to Financial Statements, Note 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2008-2009 funding is uncertain. These factors were considered in preparing the Tawas Area School's budgets for the 2008-2009 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Tawas Area School's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Don Vernon  
Superintendent  
Tawas Area Schools  
245 W. M-55  
Tawas City, MI 48763  
Office Telephone (989) 984-2250

TAWAS AREA SCHOOLS  
Iosco County, Michigan  
 STATEMENT OF NET ASSETS  
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 2,115,968
Receivables:	
Accounts	25,342
Due From Other Governmental Units	1,247,412
Inventory: (Note 1)	
Supplies	2,528
Building Trades Lots	10,793
Noncurrent Assets:	
Bond Issuance Costs - Net (Note 1)	32,786
Capital Assets - Net (Note 3)	<u>9,840,211</u>
 Total Assets	 <u>13,275,040</u>
 <u>Liabilities</u>	
Accounts Payable	353,138
Interest Payable	19,258
Payroll Deductions and Withholdings	8,842
Salaries Payable	542,769
Long-Term Liabilities (Note 5)	
Due within one year	500,294
Due in more than one year	<u>3,161,021</u>
 Total Liabilities	 <u>4,585,322</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	6,364,124
Restricted For:	
Athletics	3,222
Food Services	85,978
Debt Retirement	39,144
Capital Projects	439,926
Unrestricted	<u>1,757,324</u>
 Total Net Assets	 <u>\$ 8,689,718</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Type Activities
Instruction	\$ 7,148,871	\$ 51,436	\$ 940,117	\$ 0	\$ (6,157,318)
Support Services	3,977,363	87,295	143,014	0	(3,747,054)
Community Services	15,329	34,503	2,379	0	21,553
Food Services	483,843	178,346	332,080	0	26,583
Athletics	272,738	91,720	0	24,596	(156,422)
Interest on Long-Term Debt	<u>141,050</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(141,050)</u>
Total	<u>\$ 12,039,194</u>	<u>\$ 443,300</u>	<u>\$ 1,417,590</u>	<u>\$ 24,596</u>	<u>(10,153,708)</u>
General Revenue:					
Property Taxes, Levied for General Purposes					4,426,864
Property Taxes, Levied for Debt Purposes					784,301
State School Aid - Unrestricted					5,874,749
Investment Earnings					121,921
Gain (Loss) on Sale of Capital Assets					(11,442)
Miscellaneous					<u>10,128</u>
Total General Revenue					<u>11,206,521</u>
Change in net assets					1,052,813
Net assets - beginning (restated)					<u>7,636,905</u>
Net assets - ending					<u>\$ 8,689,718</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2008

	<u>General Fund</u>	<u>Capital Projects Fund Sinking Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents (Note 2)	\$ 1,517,559	\$ 473,378	\$ 125,031	\$ 2,115,968
Receivables:				
Accounts	24,694	0	648	25,342
Due From Other Governmental Units	1,244,124	0	3,288	1,247,412
Inventory: (Note 1)				
Supplies	0	0	2,528	2,528
Building Trades Lots	<u>10,793</u>	<u>0</u>	<u>0</u>	<u>10,793</u>
Total Assets	<u>\$ 2,797,170</u>	<u>\$ 473,378</u>	<u>\$ 131,495</u>	<u>\$ 3,402,043</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 316,535	\$ 33,452	\$ 3,151	\$ 353,138
Payroll Deductions and Withholdings	8,842	0	0	8,842
Salaries Payable	<u>542,769</u>	<u>0</u>	<u>0</u>	<u>542,769</u>
Total Liabilities	<u>868,146</u>	<u>33,452</u>	<u>3,151</u>	<u>904,749</u>
<u>Fund Equity</u>				
Fund Balances:				
Reserved:				
Debt Service	0	0	39,144	39,144
Capital Projects	0	439,926	0	439,926
Unreserved and Undesignated, Reported In:				
General Fund	1,929,024	0	0	1,929,024
Special Revenue Funds	<u>0</u>	<u>0</u>	<u>89,200</u>	<u>89,200</u>
Total Fund Equity	<u>1,929,024</u>	<u>439,926</u>	<u>128,344</u>	<u>2,497,294</u>
Total Liabilities and Fund Equity	<u>\$ 2,797,170</u>	<u>\$ 473,378</u>	<u>\$ 131,495</u>	<u>\$ 3,402,043</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2008

Total governmental fund balances		\$	2,497,294
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:			
Capital Asset Cost	\$	18,037,322	
Capital Asset Accumulated Depreciation		<u>(8,197,111)</u>	
			9,840,211
Accrued interest on long-term liabilities			(19,258)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (net of deferred amounts on refunding)		(3,456,829)	
Compensated Absences Payable		(96,500)	
Early Retirement Incentive Payable		<u>(75,200)</u>	
Total long-term liabilities			<u>(3,628,529)</u>
Total net assets - governmental activities		\$	<u>8,689,718</u>

The accompanying notes to financial statements are an integral part of this statement.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Capital Projects Fund Sinking Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Local Sources	\$ 4,669,352	\$ 252,099	\$ 867,391	\$ 5,788,842
State Sources	6,572,348	0	37,882	6,610,230
Federal Sources	358,339	0	286,313	644,652
Interdistrict Sources	59,725	0	0	59,725
Total revenue	<u>11,659,764</u>	<u>252,099</u>	<u>1,191,586</u>	<u>13,103,449</u>
<u>Expenditures</u>				
Current:				
Instruction	6,880,957	0	0	6,880,957
Support Services	3,912,951	0	0	3,912,951
Community Services	14,878	0	0	14,878
Food Services	0	0	469,595	469,595
Athletics	0	0	264,706	264,706
Capital Outlay	204,909	295,873	63,583	564,365
Debt Service:				
Principal Retirement	0	0	445,000	445,000
Interest and Fees on Long-Term Debt	0	0	129,546	129,546
Total expenditures	<u>11,013,695</u>	<u>295,873</u>	<u>1,372,430</u>	<u>12,681,998</u>
Excess of revenue over (under) expenditures	<u>646,069</u>	<u>(43,774)</u>	<u>(180,844)</u>	<u>421,451</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	3,558	0	0	3,558
Operating Transfers In	24,865	0	214,760	239,625
Operating Transfers Out	(214,760)	0	(24,865)	(239,625)
Total other financing sources (uses)	<u>(186,337)</u>	<u>0</u>	<u>189,895</u>	<u>3,558</u>
Excess of revenue and other sources over (under) expenditures and other uses	459,732	(43,774)	9,051	425,009
Fund balances - beginning of year	<u>1,469,292</u>	<u>483,700</u>	<u>119,293</u>	<u>2,072,285</u>
Fund balances - end of year	<u>\$ 1,929,024</u>	<u>\$ 439,926</u>	<u>\$ 128,344</u>	<u>\$ 2,497,294</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds	\$ 425,009
--	------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (453,256)	
Capital outlays reported in the governmental funds	667,254	
Gain (loss) on disposal of capital assets	<u>(15,000)</u>	
		198,998

Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.

Bonds Payable	445,000
---------------	---------

Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Amortization of Deferred Bond Costs and Bond Premiums (Net)	(12,171)
---	----------

Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effect of the treatment of these activities are as follows:

Interest	667	
Compensated Absences	(45,790)	
Early Retirement Incentives	<u>41,100</u>	
		<u>(4,023)</u>

Change in net assets of governmental activities	\$ <u>1,052,813</u>
---	---------------------

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2008

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ <u>147,714</u>
<u>LIABILITIES</u>	
Due to Student Groups	\$ <u>147,714</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Area Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Tawas Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Tawas Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Sinking Fund – The Sinking Fund accounts for the acquisition or construction of major capital facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose, and the accumulation of resources for, and the payment of debt.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2008, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements is stated at cost and expensed when used.

Inventory in governmental funds consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure in the governmental fund types when purchased.

H. Inventory - Building Trades Lots

Inventory represents the cost of property purchased for future building sites.

I. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2008.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

O. Property Taxes

The School District levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

P. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School District. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2007.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2007 - August, 2008. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

Q. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

T. Economic Dependency

The School District received approximately 50% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

U. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

V. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Tawas Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

W. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ <u>2,115,968</u>	\$ <u>147,714</u>	\$ <u>2,263,682</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts)	\$ 270,802
Investments in Pooled Funds	1,992,080
Petty Cash and Cash on Hand	<u>800</u>
Total	\$ <u>2,263,682</u>

As of June 30, 2008, the School District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ <u>1,992,080</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2008, the School District's investment in the Cadre Consulting managed Michigan Liquid Asset Fund investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$502,946 of the School District's bank balance of \$602,946 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

The School District is not authorized to invest in investments which have this type of risk.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 01, 2007	Additions	Deletions	Balance June 30, 2008
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 150,525	\$ 0	\$ 0	\$ 150,525
Capital Assets Being Depreciated:				
Buildings and Improvements	12,981,017	63,109	0	13,044,126
Site Improvements	2,139,881	374,338	(60,000)	2,454,219
Furniture, Fixtures and Equipment	817,432	15,780	0	833,212
Vehicles and Buses	1,442,451	162,794	(101,238)	1,504,007
Construction in Progress	0	51,233	0	51,233
Subtotal	<u>17,380,781</u>	<u>667,254</u>	<u>(161,238)</u>	<u>17,886,797</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,616,362)	(230,314)	0	(4,846,676)
Site Improvements	(1,631,186)	(86,609)	45,000	(1,672,795)
Furniture, Fixtures and Equipment	(526,688)	(55,924)	0	(582,612)
Vehicles and Buses	(1,115,857)	(80,409)	101,238	(1,095,028)
Subtotal	<u>(7,890,093)</u>	<u>(453,256)</u>	<u>146,238</u>	<u>(8,197,111)</u>
Capital Assets Being Depreciated	<u>9,490,688</u>	<u>213,998</u>	<u>(15,000)</u>	<u>9,689,686</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 9,641,213</u>	<u>\$ 213,998</u>	<u>\$ (15,000)</u>	<u>\$ 9,840,211</u>

Depreciation expense was charged to activities of the School District as follows:

<u>Governmental Activities</u>	
Instruction	\$ 272,334
Support Services	151,516
Community Services	584
Food Services	18,432
Athletics	<u>10,390</u>
	<u>\$ 453,256</u>

NOTE 4 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2008

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
The bonds dated March 27, 2003 which bear interest from 2% to 3.6% are due serially each May 1 through 2015	2003	\$ <u>3,540,000</u>	\$ <u>492,720</u>	\$ <u>4,032,720</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2008 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 455,000	\$ 115,550	\$ 570,550
2010	475,000	101,900	576,900
2011	490,000	87,650	577,650
2012	500,000	72,460	572,460
2013	520,000	56,210	576,210
2014 - 2015	<u>1,100,000</u>	<u>58,950</u>	<u>1,158,950</u>
Total	\$ <u>3,540,000</u>	\$ <u>492,720</u>	\$ <u>4,032,720</u>

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for Tawas Area Schools was \$96,500 at June 30, 2008. The payment dates of compensated absences are undeterminable; therefore, all of the liability is considered long term.

C. Early Retirement Incentive Payable

The School District has two retirement incentive programs, Option A was offered to all teachers actively employed by the School District and not on leave, who have thirty (30) or more years of retirement credit, or are in the process of purchasing or willing to purchase service credit to get them to (30) years of credit by June 30, 2008. Option B was offered to all teachers who are actively employed with the School District and not on leave, who are fifty-five (55) years of age and meet the requirements of the State of Michigan Public School Retirement Law and are able to receive State of Michigan retirement benefits at a reduced amount. The amount of retirement incentive liability for the School District at June 30, 2008 was \$75,200, of which \$52,700 was the estimated current portion.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Increase	Decrease	Balance June 30, 2008	Amount Due in One Year
<u>Governmental Activities</u>					
Bonds	\$ 3,985,000	\$ 0	\$ (445,000)	\$ 3,540,000	\$ 455,000
Deferred Amounts for Issuance Premium	(57,791)	0	7,406	(50,385)	(7,406)
Compensated Absences	50,710	45,790 *	0	96,500	0
Early Retirement Incentives	<u>116,300</u>	<u>0</u>	<u>(41,100) *</u>	<u>75,200</u>	<u>52,700</u>
Total Long-Term Liabilities	<u>\$ 4,094,219</u>	<u>\$ 45,790</u>	<u>\$ (478,694)</u>	<u>\$ 3,661,315</u>	<u>\$ 500,294</u>

\*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$141,050.

NOTE 6 - OPERATING TRANSFERS

During the year ended June 30, 2008, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 24,865	\$ 214,760
Non-major Governmental Funds	<u>214,760</u>	<u>24,865</u>
	<u>\$ 239,625</u>	<u>\$ 239,625</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budget of the School District for the general fund was adopted at the functional level, and the approved budget for the special revenue funds was adopted at the activity level.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS (CONTINUED)

During the year ended June 30, 2008, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General/Instruction	\$ 6,859,392	\$ 6,880,957	\$ 21,565

NOTE 8 - RETIREMENT PLANS

Defined Benefit Plan

The Tawas Area Schools contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2007, employer contributions were 17.74% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2007, the contribution rate decreased to 16.72% of covered compensation. The contribution requirements of plan members and Tawas Area Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2008, 2007 and 2006 were \$1,095,565, \$1,146,916 and \$1,036,032, respectively, equal to the required contributions for each year.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 8 - RETIREMENT PLANS (CONTINUED)

The MPSERS also provides for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The School District offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the School District for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the School District's financial statements.

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Tawas Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$65,000 for the year ended June 30, 2008.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$307,928 for the year ended June 30, 2008. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 9 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$0 as of June 30, 2008.

NOTE 10 - SINKING FUND

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 12 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 13 - COMMITMENTS

The School District has contractual commitments in the amount of \$181,640 outstanding at June 30, 2008.

**Construction contracts**

As of June 30, 2008, the School District had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at June 30, 2008</u>	<u>Contract Payable at June 30, 2008</u>
Building Improvements Sinking Fund	\$ <u>214,000</u>	\$ <u>181,640</u>	\$ <u>32,360</u>

NOTE 14 - CONTINGENCIES

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2008, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 15 - PRIOR PERIOD ADJUSTMENT

The June 30, 2007 financial statements have been restated to account for \$935,106 of Capital Assets and \$759,244 of accumulated depreciation that was incorrectly included in the appraisal used in the prior audit. The combination of above restatements decreased fixed assets by \$175,862. The following shows the effects of the restatements on the balance sheet.

	<u>Original 2007</u>	<u>Restatement</u>	<u>Restated 2007</u>
Capital Assets	\$ 18,466,412	\$ (935,106)	\$ 17,531,306
Accumulated Depreciation	<u>(8,649,337)</u>	<u>759,244</u>	<u>(7,890,093)</u>
Change in Fixed Assets	<u>\$ 9,817,075</u>	<u>\$ (175,862)</u>	<u>\$ 9,641,213</u>

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 4,665,402	\$ 4,707,396	\$ 4,669,352	\$ (38,044)
State Sources	6,391,117	6,538,832	6,572,348	33,516
Federal Sources	294,481	365,172	358,339	(6,833)
Interdistrict Sources	55,000	59,664	59,725	61
Total revenue	<u>11,406,000</u>	<u>11,671,064</u>	<u>11,659,764</u>	<u>(11,300)</u>
<u>Expenditures</u>				
Current:				
Instruction	6,956,912	6,859,392	6,880,957	(21,565)
Support Services	4,082,039	3,925,085	3,912,951	12,134
Community Services	2,984	14,933	14,878	55
Capital Outlay	0	208,882	204,909	3,973
Total expenditures	<u>11,041,935</u>	<u>11,008,292</u>	<u>11,013,695</u>	<u>(5,403)</u>
Excess of revenue over expenditures	<u>364,065</u>	<u>662,772</u>	<u>646,069</u>	<u>(16,703)</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	3,600	3,558	3,558	0
Operating Transfers In	25,000	24,865	24,865	0
Operating Transfers Out	<u>(231,786)</u>	<u>(214,768)</u>	<u>(214,760)</u>	<u>8</u>
Total other financing sources (uses)	<u>(203,186)</u>	<u>(186,345)</u>	<u>(186,337)</u>	<u>8</u>
Excess of revenue and other sources over expenditures and other uses	160,879	476,427	459,732	(16,695)
Fund balances - beginning of year	<u>1,469,292</u>	<u>1,469,292</u>	<u>1,469,292</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,630,171</u>	<u>\$ 1,945,719</u>	<u>\$ 1,929,024</u>	<u>\$ (16,695)</u>

OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Lunch Fund</u>	<u>Athletic Fund</u>		
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 79,514	\$ 3,222	\$ 42,295	\$ 125,031
Receivables:				
Accounts	648	0	0	648
Due From Other Governmental Units	3,288	0	0	3,288
Inventory:				
Supplies	<u>2,528</u>	<u>0</u>	<u>0</u>	<u>2,528</u>
Total Assets	<u>\$ 85,978</u>	<u>\$ 3,222</u>	<u>\$ 42,295</u>	<u>\$ 131,495</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ <u>0</u>	\$ <u>0</u>	\$ <u>3,151</u>	\$ <u>3,151</u>
<u>Fund Equity</u>				
Fund Balances:				
Reserved:				
Debt Service	0	0	39,144	39,144
Unreserved and Undesignated, Reported In:				
Special Revenue Funds	<u>85,978</u>	<u>3,222</u>	<u>0</u>	<u>89,200</u>
Total Fund Equity	<u>85,978</u>	<u>3,222</u>	<u>39,144</u>	<u>128,344</u>
Total Liabilities and Fund Equity	<u>\$ 85,978</u>	<u>\$ 3,222</u>	<u>\$ 42,295</u>	<u>\$ 131,495</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Lunch Fund</u>	<u>Athletic Fund</u>		
<u>Revenue</u>				
Local Sources	\$ 187,954	\$ 116,652	\$ 562,785	\$ 867,391
State Sources	37,882	0	0	37,882
Federal Sources	286,313	0	0	286,313
Total revenue	<u>512,149</u>	<u>116,652</u>	<u>562,785</u>	<u>1,191,586</u>
<u>Expenditures</u>				
Current:				
Food Services	469,595	0	0	469,595
Athletics	0	264,706	0	264,706
Capital Outlay	16,059	47,524	0	63,583
Debt Service:				
Principal Retirement	0	0	445,000	445,000
Interest and Fees on Long-Term Debt	<u>0</u>	<u>0</u>	<u>129,546</u>	<u>129,546</u>
Total expenditures	<u>485,654</u>	<u>312,230</u>	<u>574,546</u>	<u>1,372,430</u>
Excess of revenue over (under) expenditures	<u>26,495</u>	<u>(195,578)</u>	<u>(11,761)</u>	<u>(180,844)</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	214,760	0	214,760
Operating Transfers Out	<u>0</u>	<u>(24,865)</u>	<u>0</u>	<u>(24,865)</u>
Total other financing sources (uses)	<u>0</u>	<u>189,895</u>	<u>0</u>	<u>189,895</u>
Excess of revenue and other sources over (under) expenditures and other uses	26,495	(5,683)	(11,761)	9,051
Fund balances - beginning of year	<u>59,483</u>	<u>8,905</u>	<u>50,905</u>	<u>119,293</u>
Fund balances - end of year	<u>\$ 85,978</u>	<u>\$ 3,222</u>	<u>\$ 39,144</u>	<u>\$ 128,344</u>

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF REVENUE COMPARED TO BUDGET  
For the Year Ended June 30, 2008  
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 4,461,919	\$ 4,426,864	\$ 4,252,504
Tuition	34,503	34,503	40,179
Transportation Fees	10,200	11,579	10,368
Interest on Investments	90,500	89,279	81,459
Rents	9,076	6,051	9,076
Medicaid Fee for Service	51,436	51,436	36,045
Miscellaneous Local Sources	<u>49,762</u>	<u>49,640</u>	<u>50,271</u>
	<u>4,707,396</u>	<u>4,669,352</u>	<u>4,479,902</u>
<u>State Sources</u>			
State Aid Foundation Allowance	5,841,518	5,874,749	5,971,310
Special Education	370,003	237,911	234,841
At Risk	272,911	272,910	249,500
Math/Science	0	0	18,978
Preschool Program/Early Childhood Education	<u>54,400</u>	<u>186,778</u>	<u>172,935</u>
	<u>6,538,832</u>	<u>6,572,348</u>	<u>6,647,564</u>
<u>Federal Sources</u>			
ECIA Title I	256,420	256,420	272,889
ECIA Title II- Improving Teacher Quality	88,146	88,146	166,540
Title II Part D - Education Technology	2,379	2,379	2,528
Title V	1,435	1,435	298
Medicaid Outreach	7,591	758	270
Schools and Roads Grant Funds	9,201	9,201	8,604
Special Education	<u>0</u>	<u>0</u>	<u>4,000</u>
	<u>365,172</u>	<u>358,339</u>	<u>455,129</u>
<u>Interdistrict Sources</u>			
Pre-Primary Speech and Language	30,153	30,153	27,448
Vocational Education	<u>29,511</u>	<u>29,572</u>	<u>37,292</u>
	<u>59,664</u>	<u>59,725</u>	<u>64,740</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	3,558	3,558	3,602
Operating Transfers In	<u>24,865</u>	<u>24,865</u>	<u>25,180</u>
	<u>28,423</u>	<u>28,423</u>	<u>28,782</u>
Total Revenue and Other Financing Sources	<u>\$ 11,699,487</u>	<u>\$ 11,688,187</u>	<u>\$ 11,676,117</u>



TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2008  
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,472,155	\$ 1,472,063	\$ 1,569,550
Employee Benefits	723,961	723,925	770,028
Purchased Services	33,264	32,768	43,455
Supplies, Materials and Other	<u>76,249</u>	<u>76,286</u>	<u>43,450</u>
	<u>2,305,629</u>	<u>2,305,042</u>	<u>2,426,483</u>
Junior High School			
Salaries	560,983	561,023	579,164
Employee Benefits	305,914	305,923	319,022
Purchased Services	11,375	11,086	15,389
Supplies, Materials and Other	<u>21,982</u>	<u>21,895</u>	<u>5,297</u>
	<u>900,254</u>	<u>899,927</u>	<u>918,872</u>
High School			
Salaries	1,131,567	1,131,973	1,119,105
Employee Benefits	559,836	559,934	550,991
Purchased Services	98,768	98,523	63,304
Supplies, Materials and Other	<u>33,777</u>	<u>33,775</u>	<u>50,028</u>
	<u>1,823,948</u>	<u>1,824,205</u>	<u>1,783,428</u>
Preschool			
Salaries	36,258	36,257	28,026
Employee Benefits	16,815	16,811	14,364
Supplies, Materials and Other	<u>1,327</u>	<u>1,332</u>	<u>464</u>
	<u>54,400</u>	<u>54,400</u>	<u>42,854</u>
Total Basic Programs	<u>5,084,231</u>	<u>5,083,574</u>	<u>5,171,637</u>
Added Needs:			
Special Education			
Salaries	619,645	619,636	633,029
Employee Benefits	316,338	316,309	342,639
Purchased Services	20,196	42,428	20,767
Supplies, Materials and Other	<u>1,339</u>	<u>1,336</u>	<u>3,779</u>
	<u>957,518</u>	<u>979,709</u>	<u>1,000,214</u>
Compensatory Education			
Salaries	264,004	264,000	298,608
Employee Benefits	114,195	114,183	139,117
Purchased Services	54	54	282
Supplies, Materials and Other	<u>3,868</u>	<u>3,935</u>	<u>3,273</u>
	<u>382,121</u>	<u>382,172</u>	<u>441,280</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2008  
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 127,165	\$ 127,159	\$ 127,561
Employee Benefits	60,682	60,675	63,388
Purchased Services	244,721	244,720	186,736
Supplies, Materials and Other	1,511	1,507	3,938
	<u>434,079</u>	<u>434,061</u>	<u>381,623</u>
 Total Added Needs	 <u>1,773,718</u>	 <u>1,795,942</u>	 <u>1,823,117</u>
 Adult Education:			
Basic			
Salaries	780	780	1,203
Employee Benefits	195	193	5,807
Purchased Services	468	468	9,579
Supplies, Materials and Other	0	0	705
	<u>1,443</u>	<u>1,441</u>	<u>17,294</u>
 Total Instruction	 <u>6,859,392</u>	 <u>6,880,957</u>	 <u>7,012,048</u>
 <u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	156,027	156,027	183,035
Employee Benefits	67,224	67,220	82,959
Purchased Services	0	0	222
Supplies, Materials and Other	625	625	1,102
	<u>223,876</u>	<u>223,872</u>	<u>267,318</u>
 Health Services			
Purchased Services	<u>18,016</u>	<u>14,612</u>	<u>23,938</u>
 Psychological Services			
Purchased Services	45,675	44,205	42,030
Supplies, Materials and Other	0	0	9
	<u>45,675</u>	<u>44,205</u>	<u>42,039</u>
 Speech			
Salaries	75,603	75,600	87,735
Employee Benefits	52,146	52,138	42,734
Purchased Services	316	315	493
Supplies, Materials and Other	656	656	1,130
	<u>128,721</u>	<u>128,709</u>	<u>132,092</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2008  
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
Pupil Services: (Continued)			
Social Work			
Salaries	\$ 46,647	\$ 46,644	\$ 9,308
Employee Benefits	18,505	18,493	3,483
Supplies, Materials and Other	312	312	0
	<u>65,464</u>	<u>65,449</u>	<u>12,791</u>
 Total Pupil Services	 <u>481,752</u>	 <u>476,847</u>	 <u>478,178</u>
 Instructional Staff:			
Instructional Improvement			
Purchased Services	<u>9,991</u>	<u>9,990</u>	<u>11,839</u>
 Library Services			
Salaries	76,055	76,051	75,373
Employee Benefits	32,964	32,951	33,105
Supplies, Materials and Other	9,383	9,380	12,114
	<u>118,402</u>	<u>118,382</u>	<u>120,592</u>
 Director of Instruction			
Salaries	72,133	72,133	91,857
Employee Benefits	13,341	13,341	8,940
Purchased Services	773	773	1,058
Supplies, Materials and Other	1,679	1,679	1,131
	<u>87,926</u>	<u>87,926</u>	<u>102,986</u>
 Total Instructional Staff	 <u>216,319</u>	 <u>216,298</u>	 <u>235,417</u>
 General Administration:			
Board of Education			
Salaries	4,470	4,800	5,070
Purchased Services	63,929	62,456	45,291
	<u>68,399</u>	<u>67,256</u>	<u>50,361</u>
 Executive Administration			
Salaries	162,789	162,789	161,176
Employee Benefits	131,945	131,945	67,681
Purchased Services	29,512	30,809	15,803
Supplies, Materials and Other	18,505	17,246	15,986
	<u>342,751</u>	<u>342,789</u>	<u>260,646</u>
 Total General Administration	 <u>411,150</u>	 <u>410,045</u>	 <u>311,007</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2008  
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
School Administration:			
Office of the Principal			
Salaries	\$ 419,383	\$ 419,377	\$ 411,842
Employee Benefits	281,883	281,856	265,275
Purchased Services	81,480	81,480	82,015
Supplies, Materials and Other	<u>11,925</u>	<u>11,905</u>	<u>26,721</u>
	<u>794,671</u>	<u>794,618</u>	<u>785,853</u>
Business:			
Fiscal Services			
Salaries	84,541	84,541	81,291
Employee Benefits	68,154	67,647	142,630
Purchased Services	25,323	25,322	76,649
Supplies, Materials and Other	<u>41,867</u>	<u>46,724</u>	<u>21,627</u>
	<u>219,885</u>	<u>224,234</u>	<u>322,197</u>
Operations and Maintenance:			
Salaries	307,065	306,980	326,584
Employee Benefits	168,595	168,571	173,027
Purchased Services	353,023	349,089	295,297
Supplies, Materials and Other	<u>86,982</u>	<u>85,270</u>	<u>76,329</u>
	<u>915,665</u>	<u>909,910</u>	<u>871,237</u>
Transportation:			
Salaries	328,597	328,887	331,148
Employee Benefits	123,759	123,825	113,449
Purchased Services	50,009	50,008	78,651
Supplies, Materials and Other	<u>179,287</u>	<u>174,442</u>	<u>156,020</u>
	<u>681,652</u>	<u>677,162</u>	<u>679,268</u>
Central Services:			
Central Services			
Purchased Services	<u>0</u>	<u>0</u>	<u>4,000</u>
Technology			
Salaries	106,811	106,810	122,510
Employee Benefits	57,613	57,611	66,446
Purchased Services	37,630	37,480	42,105
Supplies, Materials and Other	<u>1,937</u>	<u>1,936</u>	<u>4,464</u>
	<u>203,991</u>	<u>203,837</u>	<u>235,525</u>
Total Central Services	<u>203,991</u>	<u>203,837</u>	<u>239,525</u>
Total Support Services	<u>3,925,085</u>	<u>3,912,951</u>	<u>3,922,682</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2008  
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Community Services</u>			
Crossing Guard			
Salaries	\$ 2,113	\$ 2,113	\$ 2,153
Employee Benefits	625	625	542
	<u>2,738</u>	<u>2,738</u>	<u>2,695</u>
Other Community Services:			
Salaries	9,266	9,266	0
Employee Benefits	2,295	2,295	0
Purchased Services	489	434	0
Supplies, Materials and Other	145	145	0
	<u>12,195</u>	<u>12,140</u>	<u>0</u>
Total Community Services	<u>14,933</u>	<u>14,878</u>	<u>2,695</u>
<u>Capital Outlay</u>			
Instruction	2,352	2,352	0
Support Services	206,530	202,557	136,200
Total Capital Outlay	<u>208,882</u>	<u>204,909</u>	<u>136,200</u>
<u>Operating Transfers Out</u>			
Athletic Fund	214,768	214,760	220,317
Total Expenditures and Transfers	<u>\$ 11,223,060</u>	<u>\$ 11,228,455</u>	<u>\$ 11,293,942</u>



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troysen, CPA

Herman A. Bertoldi

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2008

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*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Bramman, CPA  
Kyle E. Trovett, CPA

Herman A. Benalelli

September 26, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Tawas Area Schools' basic financial statements and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tawas Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tawas Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tawas Area Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Tawas Area Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Tawas Area Schools' financial statements that is more than inconsequential will not be prevented or detected by Tawas Area Schools' internal control. We consider the deficiency 08-1, described in the accompanying schedule of findings and questioned costs, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Tawas Area Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.



*Stephenson, Gracik & Co., P.C.*

Board of Education  
Tawas Area Schools  
September 26, 2008  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we have reported to management of Tawas Area Schools in a separate letter dated September 26, 2008.

Tawas Area School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Tawas Areas School's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Hannan, CPA  
Kyle E. Troyer, CPA

Thomas A. Bertalan

September 26, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

Compliance

We have audited the compliance of Tawas Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Tawas Area Schools' management. Our responsibility is to express an opinion on Tawas Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tawas Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tawas Area Schools' compliance with those requirements.

As described in item 08-2 in the accompanying schedule of findings and questioned costs, Tawas Area Schools did not comply with requirements regarding time and effort reporting that are applicable to the Title I Program. Compliance with such requirements is necessary, in our opinion, for Tawas Area Schools to comply with the requirements of that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Tawas Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Tawas Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Tawas Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tawas Area Schools' internal control over compliance.



Board of Education  
Tawas Area Schools  
September 26, 2008  
Page Two

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Tawas Area Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Tawas Area Schools' responses and, accordingly, we express no opinion on them.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Tawas Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2008

Findings - Financial Statements Audit

07-1

Internal Controls

Financial Statement Preparation

Tawas Area Schools have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Current Status:

The situation still exists and is included below as a current year audit finding.

Findings and Questioned Costs - Major Federal Award Programs Audit

07-2

Cost Principles

Child Nutrition Cost Allocations

Office of Management and Budget Circular A-87 and state guidelines require costs be allocated on an equitable basis. The percentages used to allocate food service costs to lunch, breakfast, a la carte and other services were based on an estimate of hours by service rather than actual hours accumulated by service.

Current Status:

This situation was corrected. A full time Food Service Director was hired and the hours charged to the food service program were based on actual hours.

07-3

Eligibility

Child Nutrition Program Eligibility

State and federal compliance supplements require school personnel verify a sample of free and reduced lunch applications with independent income sources. Two of the four files tested did not obtain independent third party verifications.

Current Status:

This situation was corrected. In the current year eligibility and internal verification testing, there were no exceptions noted.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008

Summary of Auditors' Results

- (1) The auditor's report expresses unqualified opinions on the financial statements of Tawas Area Schools.
- (2) One material weakness relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Others Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Tawas Area Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) One significant deficiency is disclosed regarding internal control over major federal award program compliance in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses a qualified opinion.
- (6) The auditors' report disclosed one finding relative to the major federal award programs of Tawas Area Schools.
- (7) The programs tested as major programs included: Title I, CFDA #84.010, and the School Nutrition Cluster, CFDA #10.553 and #10.555.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Tawas Area Schools did not qualify as a low-risk auditee.

Findings - Financial Statements Audit

08-1 Financial Statement Preparation

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements. However, if at any point in the audit we as auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

An example of where the District relies on the auditor as a control for producing reliable financial statements is in the development of a listing of fixed assets additions. Currently, management does not have procedures in place to ensure that all items purchased by the District that meet the capitalization policy requirements are being capitalized. During the audit, several items were noted that needed to be capitalized and provided to the appraisal company that was not. We recommend that management establish procedures to ensure that all purchases that meet the Districts capitalization policy are added to the additions listing and are properly included by the appraisal company on the year end fixed asset listings.

**Criteria:** Accounting principles require personnel of Tawas Area Schools have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008

Findings - Financial Statements Audit (Continued)

08-1 Financial Statement Preparation (Continued)

**Condition:** Tawas Area Schools' personnel prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

**Questioned Costs:** None.

**Context:** Tawas Area Schools have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Effect:** As a result, the School District is considered to have a material weakness, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the School District would not be in a position to detect the errors or omissions.

**Views of responsible officials and planned corrective action:** Tawas Area Schools plans to look into the purchase and use of the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the "Blue Book"), to help train and assist management with the disclosures required for the financial statements .

Findings and Questioned Costs – Major Federal Award Programs Audit

08-2 Title I – Time and Effort Reporting

**Criteria:** Office of Management and Budget Circular A-87 requires when an employee is co-funded that written schedules be prepared, signed, and dated by the employee and account for the person's total activity to substantiate the amount charged to the federal program.

**Condition:** The School District's schedules on file did not agree with the actual amount of time being charged to the grant.

**Questioned Costs:** \$7,044.

**Context:** The schedules being used to allocate payroll were not current and did not match the current signed schedules kept by the Title I Director.

**Cause/Effect:** The Title I Director was not aware that the current schedules were not the schedules being used to allocate payroll costs.

**Recommendation :** We recommend that management establish procedures to incorporate the Title I Director into the allocation process to ensure that accurate, up to date, schedules are being used when processing payroll.

**Views of responsible officials and planned corrective action:** Tawas Area Schools plans to have the Title I Director and the Payroll Clerk work together on a continual basis to ensure that they are both in agreement as to the amounts to allocate to Title I and that those amounts match the current schedules for each employee kept on file.

**TAWAS AREA SCHOOLS**  
**Iosco County, Michigan**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2008**

<u>Federal Grantor or Pass Through Grantor Program Title/Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<b><u>U.S. Department of Agriculture</u></b>							
Child Nutrition Cluster:							
Passed through the Michigan Department of Education:							
School Breakfast Program							
071970 2006-2007	10.553	\$ 61,442	\$ 55,658	\$ 0	\$ 5,784	\$ 5,784	\$ 0
081970 2007-2008		60,921	0	0	60,921	60,921	0
		<u>122,363</u>	<u>55,658</u>	<u>0</u>	<u>66,705</u>	<u>66,705</u>	<u>0</u>
National School Lunch Program							
Section 4 - All Lunches							
071950 2006-2007	10.555	28,038	25,192	0	2,846	2,846	0
081950 2007-2008		24,905	0	0	24,905	24,905	0
		<u>52,943</u>	<u>25,192</u>	<u>0</u>	<u>27,751</u>	<u>27,751</u>	<u>0</u>
Section 11 - Free and Reduced							
071960 2006-2007	10.555	153,215	136,854	0	16,361	16,361	0
081960 2007-2008		150,558	0	0	150,558	150,558	0
		<u>303,773</u>	<u>136,854</u>	<u>0</u>	<u>166,919</u>	<u>166,919</u>	<u>0</u>
Total Child Nutrition Cluster		<u>479,079</u>	<u>217,704</u>	<u>0</u>	<u>261,375</u>	<u>261,375</u>	<u>0</u>
Passed through the Michigan Department of Education:							
Food Distribution							
55030 Entitlement Commodities	10.550	24,915	0	0	24,915	24,915	0
55030 Bonus Commodities		23	0	0	23	23	0
		<u>24,938</u>	<u>0</u>	<u>0</u>	<u>24,938</u>	<u>24,938</u>	<u>0</u>
Passed through Iosco County:							
Schools and Roads Grants Funds	10.665	9,201	0	0	9,201	9,201	0
Total U.S. Department of Agriculture		<u>513,218</u>	<u>217,704</u>	<u>0</u>	<u>295,514</u>	<u>295,514</u>	<u>0</u>

**TAWAS AREA SCHOOLS**  
**Iosco County, Michigan**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2008**

Federal Grantor or Pass Through Grantor <u>Program Title/Grant Number</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>July 1, 2007</u>	Current Year <u>Expenditures</u>	Current Year Receipts <u>(Cash Basis)</u>	Accrued (Deferred) Revenue <u>June 30, 2008</u>
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education:							
Title I - Grants to Local Educational Agencies							
081530 0708 2007-2008	84.010	<u>\$ 256,420</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 256,420</u>	<u>\$ 229,836</u>	<u>\$ 26,584</u>
Passed through the Michigan Department of Education:							
Title V LEA Allocation							
080250 0708 2007-2008	84.298	<u>1,435</u>	<u>0</u>	<u>0</u>	<u>1,435</u>	<u>1,435</u>	<u>0</u>
Passed through the Michigan Department of Education:							
Title II Part D Education Technology:							
Technology Literacy Challenge Grants							
084290 0708 2007-2008	84.318	<u>2,379</u>	<u>0</u>	<u>0</u>	<u>2,379</u>	<u>2,379</u>	<u>0</u>
Passed through the Michigan Department of Education:							
Title II Part A:							
Improving Teacher Quality							
080520 0708 2007-2008	84.367	<u>88,146</u>	<u>0</u>	<u>0</u>	<u>88,146</u>	<u>88,146</u>	<u>0</u>
Total U.S. Department of Education		<u>348,380</u>	<u>0</u>	<u>0</u>	<u>348,380</u>	<u>321,796</u>	<u>26,584</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Iosco Regional Educational Service Agency:							
Medical Assistance Program Title XIX:							
Transportation Claims	93.778	<u>758</u>	<u>0</u>	<u>0</u>	<u>758</u>	<u>758</u>	<u>0</u>
Total Federal Financial Awards		<u>\$ 862,356</u>	<u>\$ 217,704</u>	<u>\$ 0</u>	<u>\$ 644,652</u>	<u>\$ 618,068</u>	<u>\$ 26,584</u>



TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2008

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to financial statements:

General Fund	\$ 358,339
Special Revenue Fund:	
Lunch Fund	<u>286,313</u>
	<u>\$ 644,652</u>



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
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James J. Gracik, CPA  
Donald W. Heaman, CPA  
Kyle H. Troyer, CPA

Herman A. Bertuleit

September 26, 2008

Management and the Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have conducted the audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Tawas Area Schools as of and for the year ended June 30, 2008 and have issued our report dated September 26, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the School District during the audit and met with management on September 26, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the School District and the Michigan Department of Education and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Gracik & Co., P.C.*

**Appendix 1**

**Communication to Those Charged with Governance**

**Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated July 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Tawas Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Tawas Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Tawas Area School's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Tawas Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Tawas Area School's compliance with those requirements.

**Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated July 1, 2008.

**Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

**Difficulties Encountered During the Audit**

We encountered no difficulties during the audit.

**Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences is attached.



**Appendix 1**

**Communication to Those Charged with Governance**

**Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

**Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

**Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Reports**

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

In planning and performing our audit of the financial statements of Tawas Area Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Tawas Area School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tawas Area School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tawas Area School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



## **Appendix II Management Comments**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiencies in internal control that we consider to be material weaknesses.

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements. However, if at any point in the audit we as auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

An example of where the District relies on the auditor as a control for producing reliable financial statements is in the development of a listing of fixed assets additions. Currently, management does not have procedures in place to ensure that all items purchased by the District that meet the capitalization policy requirements are being capitalized. During the audit, several items were noted that needed to be capitalized and provided to the appraisal company that were not. We recommend that management establish procedures to ensure that all purchases that meet the District's capitalization policy are added to the additions listing and are properly included by the appraisal company on the year end fixed asset listings.

In addition, we recommend that management look into purchasing the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the "Blue Book"), to help train and assist management with the disclosures required for the financial statements. This guide is offered through the Government Finance Officers Association website at [www.gfoa.org](http://www.gfoa.org)

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

### **TIME AND EFFORT REPORTING**

Office of Management and Budget Circular A-87 requires when an employee is co-funded, that written schedules be prepared, signed, and dated by the employee and account for the person's total activity to substantiate the amount charged to the federal program. Written schedules were prepared by all employees co-funded through Title I; however, these schedules did not agree with the charges actually being charged to Title I. The reason for this difference was due to the allocation used by the payroll department was from non-current schedules provided by the individual building principals. We recommend that management establish procedures to incorporate the Title I Director into the allocation process to ensure that accurate, up to September 26, 2008, schedules are being used when processing payroll.

### **SEGREGATION OF DUTIES**

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the District's staff prohibits complete adherence to this concept, we believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. Currently the payroll clerk has complete access to all functions in the payroll system. We recommend that the Superintendent begin performing spot checks on random payroll checks on a periodic basis to ensure that the correct wage rate and hours are being used each pay period.

# Stephenson, Gracik & Co., P.C.

## Appendix II Management Comments

### STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Situation Corrected</u>	<u>Decision To Not Implement</u>	<u>Progress Made</u>	<u>Still Exists</u>
Inability to independently prepare reliable financial statements				X
Accumulate food service employees time by service	X			
Substantiate all income by independent sources for all food service verification testing performed	X			
Obtain two signatures on all student activity fund checks prior to mailing	X			
Amend the budgets periodically to ensure no expenditures exceed appropriated amounts at year end				X